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FARMERS' NEWSLETTER

February 79/C-6

Cotton



Farmers may seed 14 million acres to cotton this spring--6 percent more than last year. That's what a USDA survey during the first week of January showed.

Of course, actual plantings often differ from farmers' early intentions due to changes in crop prices. And weather developments will sometimes favor planting one crop over another.

In any event, you will probably keep going over your options right up until you make your final plans. Here's some information to help you make your planting decision.

Cotton Stocks Could Increase Next Season

First, let's suppose that acreage this spring is around 14 million as indicated in January. This means that the 1979 harvest would probably exceed combined cotton mill use and exports by 1 million bales or more--barring bad weather. Stocks would increase sharply from this season's expected carryover of 4.1 (\pm 0.5) million bales.

Actual developments will hinge on weather and economic conditions both here and abroad. Although there is a slight chance that U.S. stocks would decline if cotton acreage actually totals 14 million, the odds certainly favor a buildup in stocks.

Prices Respond to Supply/Demand Conditions

Cotton prices improved throughout 1978 in response to strong export demand

and declining U.S. production prospects. Farm prices for the 1978 upland crop averaged about 60 cents a pound during August-December, compared with the 1977/78 season average of 52 cents. However, some weakness developed in spot market prices this January, partly in anticipation of a larger crop in 1979.

Cotton prices are highly responsive to changing demand and supply conditions. Prices are higher when supplies are tight--the ratio of disappearance (mill use plus exports) to supplies is a pretty good measure of how tight cotton supplies are. For example, during the 1976/77 season, 80 percent of the cotton supply was either exported or processed in U.S. mills, and the spot market price (SLM 1-1/16-inch cotton) averaged 71 cents a pound. Then came the large crop in 1977, and only 69 percent of our cotton supplies were used. As a result, the average price fell to 53 cents.

Around 76 percent of our supplies likely will be used this season, up from last year's 69 percent. So, prices are higher.

If cotton producers do seed the 14 million acres indicated in January, there's a good chance that a smaller

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percentage of the 1979/80 supply will be exported or used by U.S. textile mills. The ratio would likely fall within a range of 62 to 78 percent.

Forward Contracting Developments

As a way of protecting themselves against possible lower prices, cotton growers had forward contracted about 560,000 acres plus an additional 413,000 bales of 1979-crop cotton through December, according to informal USDA surveys. Contracting was most active in California and Southern Texas. About a fourth of the 1978 crop was forward contracted.

If you think prices could weaken in the coming months, you may want to consider fixing the price on a portion of your 1979 acreage by forward contracting.

Set-Aside and the Cotton Farmer

In December, USDA announced that upland cotton producers will not have to set aside or divert acreage to be eligible for loans, deficiency payments, or disaster payments on the 1979 crop.

However, set-aside programs are in effect for corn, sorghum, barley,

and wheat. This means that if you plant any of these crops this year and want to be covered by USDA's support programs, you must comply with the program requirements.

A cotton-sorghum producer, for example, will have to set-aside 1 acre of cropland for every 10 acres of sorghum planted. If not, he'll lose benefits for both sorghum and cotton.

Support Program Details

Here are some facts about 1979 loan rates, target prices, and deficiency payments.

The loan rate for SLM 1-1/16-inch cotton is 50.23 cents per pound, 2.23 cents higher than the 1978 rate.

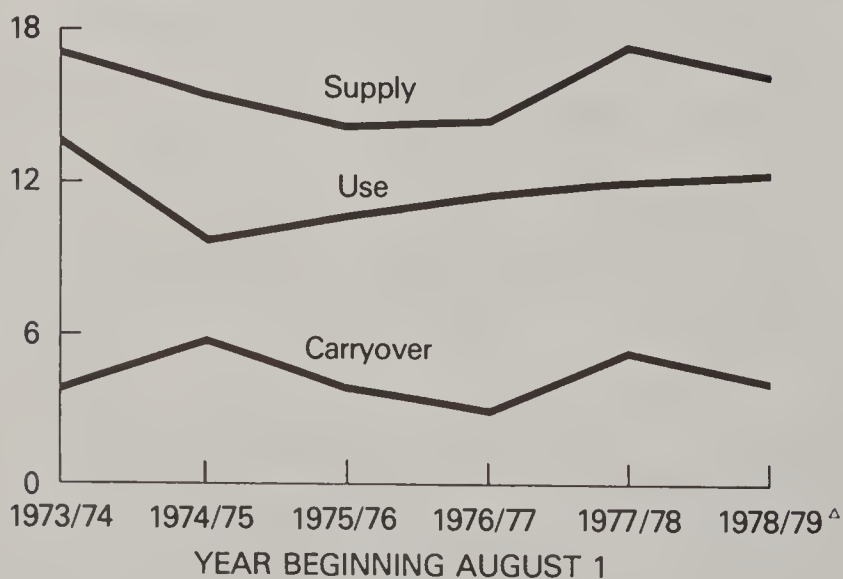
A preliminary target price of 57.7 cents a pound has been announced for 1979, up about 6 cents from last year. The target price is subject to later adjustment when 1978 yields and production cost estimates become available in May. If the national average farm price in calendar 1979 is below the target, program participants will receive deficiency payments--probably in February 1980.

Your deficiency payment would be the difference between the average U.S. price and the target price, regardless of the price you got for your crop. For example, if the national average price was 55 cents per pound and the target price was 58 cents, you would get 3 cents a pound whether you sold your cotton for 55 cents or 60 cents.

If you reduce your cotton acreage by 15 percent or more from last year's level, you'll get payment on 100 percent of your acreage. If you reduce by less than 15 percent, some of your acreage may not be covered. The exact amount of the reduction will be determined later--check with your local ASCS office.

SUPPLY, USE, AND CARRYOVER

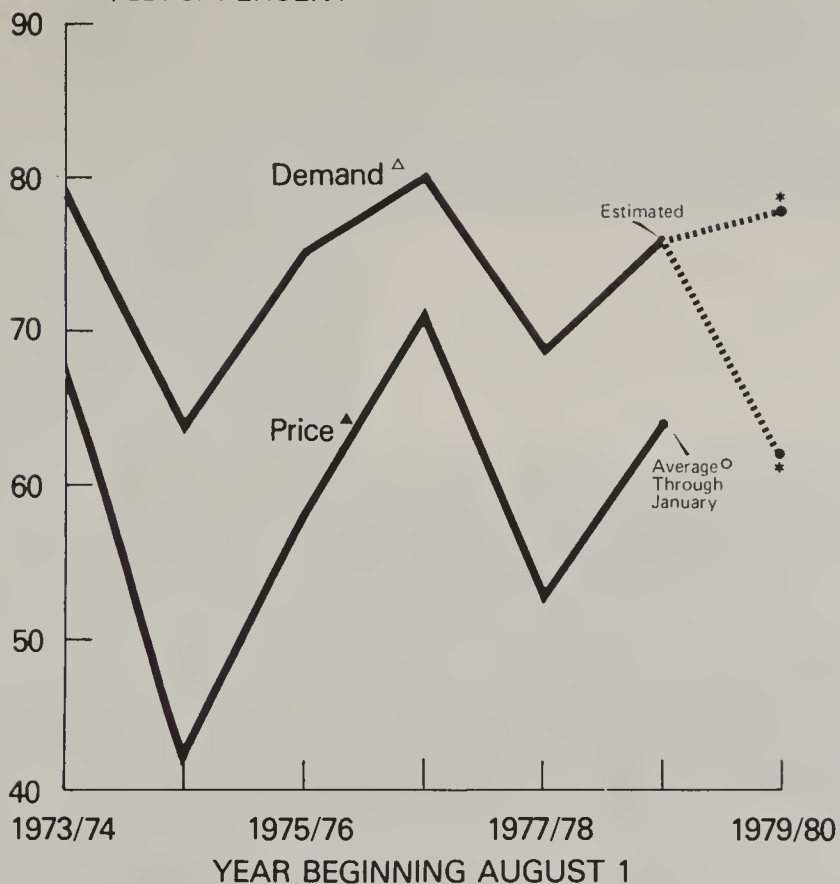
MILLION BALES



△ ESTIMATED, JANUARY 1979.

SUPPLY, DEMAND, AND PRICE

CENTS/LB. or PERCENT



△ MILL USE PLUS EXPORTS DIVIDED BY TOTAL SUPPLY.

▲ AVERAGE FOR SLM 1-1/16 INCH COTTON.

○ NOT A PROJECTION FOR 1978/79 CROP YEAR—USDA IS PROHIBITED FROM PUBLISHING COTTON PRICE PROJECTIONS.

* LIKELY RANGE BASED ON JANUARY PLANTING INTENTIONS AND ALTERNATIVE WORLDWIDE COTTON GROWING CONDITIONS IN 1979.

The disaster payment rate will be one-third of the target price. You will qualify if you are prevented from planting upland cotton or certain other crops, or if your yields are substantially reduced.

Last year's \$40,000 maximum on the combined upland cotton, wheat, and feed grain deficiency payments has been increased to \$45,000 per farm. There is no limit on your disaster payments.

Evaluate Your Planting Options

Farmers often use "rules of thumb" in making production decisions.

It is commonly stated that the break-even price ratio between soybeans and corn is 2.5 to 1, and for soybeans and cotton it is about 10 to 1. In other words, if soybean prices are more than 2-1/2 times corn prices and more than 10 times cotton prices,

soybeans are viewed as more profitable than either corn or cotton.

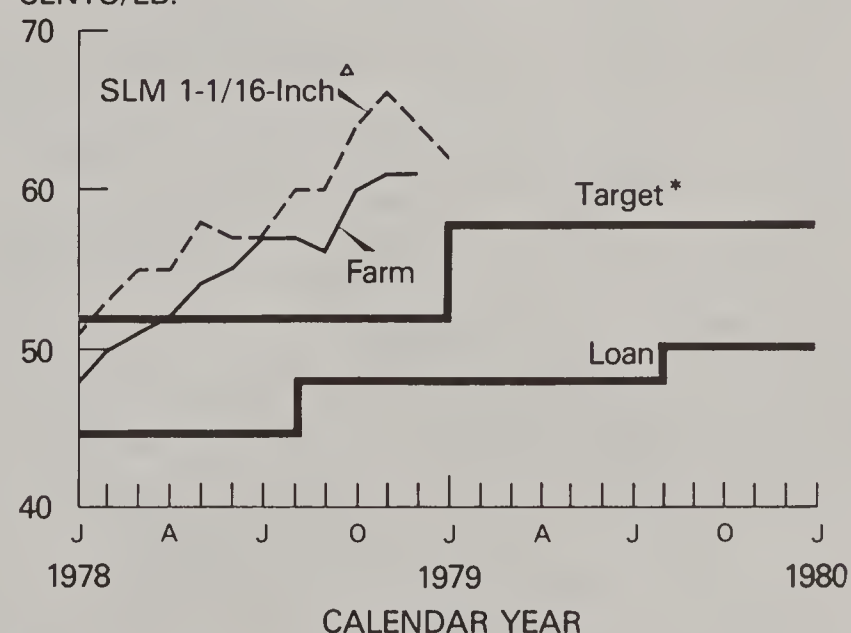
The break-even concept is often very useful. However, as prices, costs, and yields change, so do break-even prices, and the ratio itself. The soybean/cotton break-even ratio of 10 to 1 only applies to a given set of prices, costs, and yields, and the ratios will vary from year to year and from farm to farm.

There is a way you can more precisely compute the cotton price needed to make your profits from cotton equal those of competing crops. For example, say a soybean-cotton producer expects the following prices, costs, and yields:

Item	Cotton	Soybeans
price	?	\$6.50/bu.
costs	\$250/acre	\$85/acre
yields	500 lb./acre	23 bu./acre
cottonseed value	\$40/acre	0

MARKET AND SUPPORT PRICES

CENTS/LB.



* TARGET PRICE IS FOR CALENDAR YEAR.

△ SLM 1-1/16 INCH AT AVERAGE LOCATION; FOR YEAR BEGINNING AUGUST 1.

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The calculations are as follows:

(1) Profits from soybeans:

$$(6.50 \times 23) - \$85 = \$64.50/\text{acre}$$

(2) Costs of producing cotton minus cottonseed value:

$$\$250 - \$40 = \$210 \text{ per acre.}$$

(3) Required cotton price:

$$\frac{(\$64.50 + \$210)}{500 \text{ lb./acre}} = \$0.55/\text{lb.}$$

In this example, the producer would have to get 55 cents per pound for his cotton to cover his costs per acre and regain what he lost by not planting soybeans. If the producer expected to sell cotton at less than 55 cents a pound, soybeans would be the better

crop and vice versa. The break-even price ratio in this case is 11.8 to 1 (or 6.50 to 0.55).

Now, suppose this farmer only expected 20 bushels of soybeans per acre with nothing else changed. Net returns from soybeans would be $(\$6.50 \times 20) - \$85 = \$45$ per acre. The required cotton price is $(\$210 + \$45) \div 500 = \$0.51$ per pound. In this example, the break-even price ratio is 12.7 to 1 (or 6.50 to 0.51).

You'll have to consider all your options carefully. Gather as much information as possible before you finalize your 1979 cropping plans. In addition to this newsletter, USDA's quarterly Cotton and Wool Situation can help. It's free and you can receive it by completing and returning the form below:

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